ISSUE DATE: July 13, 1995

DOCKET NO. E-015/M-95-365

ORDER GRANTING APPROVAL OF ELECTRIC SERVICE AGREEMENT AND COMPETITIVE RATE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner

In the Matter of a Request by Minnesota Power for Approval of an Electric Service Agreement and a Competitive Rate for Lamb-Weston/RDO Frozen

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PROCEDURAL HISTORY

On April 14, 1995, Minnesota Power (or the Company) filed a petition for approval of an electric service agreement with Lamb-Weston/RDO Frozen (RDO) and a competitive rate for the service. Minnesota Power stated that its proposal fulfilled the requirements of Minn. Stat. § 216B.162, the statute governing competitive rates.

On May 1, 1995, the Department of Public Service (the Department) filed comments recommending approval of the Company's request.

On July 6, 1995, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. FACTUAL BACKGROUND; THE COMPANY'S PROPOSAL

RDO operates a large potato storage, handling, and processing plant in Park Rapids, Minnesota. Although most of the plant is located within the Itasca-Mantrap Cooperative's (Itasca-Mantrap's) service area, a portion of the facility is located within Minnesota Power's service area. Each service provider serves the part of the plant located within its service boundaries.

RDO is now implementing a $25,000,000 plant expansion that will approximately double the facility's processing capability and its energy consumption. The planned expansion is located within the Itasca-Mantrap service area and will be served by Itasca-Mantrap.

Minnesota Power and RDO entered into discussions regarding renewal of their electric service agreement, which expired in September, 1994. RDO indicated that it could, and would, move the portion of its facility now served by Minnesota Power to the Itasca-Mantrap portion of the plant, unless Minnesota Power offered RDO a rate comparable to that offered by Itasca-Mantrap.

As a result of their discussion, Minnesota Power and RDO entered into a new five-year electric service agreement which effectively matches the rates, terms, and conditions of the service agreement between RDO and Itasca-Mantrap. Pursuant to Minn. Stat. § 216B.162, subds. 6 and 7, Minnesota Power is offering the rate to RDO on an interim basis, pending Commission approval. Minnesota Power seeks Commission authority to offer the rate for its five-year term.

II. COMMISSION ACTION

The Commission finds that both the competitive rate schedule under which Minnesota Power offers its competitive rate and the specific competitive rate proposed for RDO meet the statutory criteria of Minn. Stat. § 216B.162. The Commission will discuss the major issues in its analysis below.

A. Minnesota Power's Competitive Rate Schedule

Minn. Stat. § 216B.162, subd. 4 provides the requirements for a utility competitive rate schedule. The terms and conditions of the service must state the following points: (1) that the minimum rate for the schedule recovers at least incremental costs; (2) that the maximum rate reduction under the rate schedule does not exceed the difference between the utility's standard tariff and cost of the customer's lowest cost competitive energy supply; (3) that the term of the contract is no less than one nor more than five years; (4) that the electric utility is allowed to seek recovery of the difference between its standard tariff and the competitive rate in its next rate case; (5) that the rate meets the conditions of section 216B.03, for other customers in the same customer class; (6) that the rate does not compete with district heating or cooling; (7) that the rate may not be offered to a customer in which the utility has a financial interest greater than 50 percent.

On January 14, 1993, the Commission found that Minnesota Power's Competitive Rate for Large Light and Power Service meets the requirements of Minn. Stat. § 216B.162, subd. 4.

Minnesota Power's offering to RDO follows the terms and conditions of its approved Large Light and Power Service schedule.

B. The Competitive Rate Offered by Minnesota Power to RDO

Minn. Stat. § 216B.162, subd. 1(d) defines "competitive rate" as "the actual rate offered by the utility, and approved by the commission, to a customer subject to effective competition."

Minn. Stat. § 216B.162, subd. 7 provides four points which the Commission must determine in reviewing a specific competitive rate proposal.

In its review of Minnesota Power's competitive rate proposal, therefore, the Commission must determine if RDO is a customer "subject to effective competition" and make findings on the four points listed in the statute for Commission determination.

1. Effective Competition

Minn. Stat. § 216B.162, subd. 1 defines "effective competition" as:

> ...a market situation in which an electric utility serves a customer that:
>
> (1) is located within the electric utility's assigned service area determined under section 216B.39; and
>
> (2) has the ability to obtain its energy requirements from an energy supplier that is not regulated by the commission under section 216B.16.

In this case, the portion of the RDO facility served by Minnesota Power is located within Minnesota Power's service territory. RDO has stated that it is willing to move that portion of the facility to the area of plant expansion, located in the Itasca-Mantrap service area, if Minnesota Power does not offer a competitive rate. The parties have stated that RDO has the warehouse and production capacity in the main plant to absorb the subject portion, and could do so at minimal cost during its expansion process.

Because Itasca-Mantrap is a cooperative, it is not regulated by the Commission under § 216B.16.

RDO is thus a customer subject to effective competition under the parameters of Minn. Stat. § 216B.162.

2. Four Commission Determinations Required Under Minn. Stat. § 216B.162, Subd. 7

Minn. Stat. § 216B.162, subd. 7 requires the Commission to make the following findings regarding a proposed competitive rate: (1) that the rate meets the terms and conditions required of a utility competitive rate schedule; (2) that the customer has the option of obtaining its energy requirements from a nonregulated alternative supplier; (3) that the customer is likely to take service from an alternative supplier if the utility does not offer the competitive rate; (4) that after consideration of environmental and socioeconomic impacts, it is in the best interest of all other customers to offer the competitive rate to this customer.

a. The Terms and Conditions of a Competitive Rate Schedule

As discussed in Section II A of this Order, the Commission finds that the Large Power and Light schedule under which Minnesota Power offers this competitive rate has been approved by the Commission.

The Department confirmed that the Company's proposed rate covers its incremental cost of providing the service.

The minimum rate offered under the proposal is not lower than the rate offered by the customer's least cost alternative--Minnesota Power is matching, but not undercutting, the rate offered by Itasca-Mantrap.

In these and other factors outlined in Minn. Stat. § 216B., subd. 4, Minnesota Power's proposed rate for RDO meets the terms and conditions required of a utility competitive rate schedule.

b. The Option of a Nonregulated Alternative Supplier

This is a unique fact situation in which two separate electric service providers serve different parts of a single processing facility. At this time of plant expansion, RDO has the option of obtaining its energy requirements from a nonregulated alternative supplier, Itasca-Mantrap, by moving the portion of the facility currently served by Minnesota Power into the cooperative's service territory. RDO has indicated that it will do so if it does not obtain a competitive rate from Minnesota Power.

c. Likelihood of Taking Service from the Alternative Supplier

See discussion in Section II B(1) of this Order.

d. Best Interests of Other Customers, After Commission Consideration of Socioeconomic and Environmental Impact

The Commission finds that the proposed competitive rate is in the best interests of customers, after consideration of socioeconomic and environmental impact, for several reasons.

The proposed five-year service agreement between Minnesota Power and RDO, including the competitive rate, will contribute to rate stability and the recovery of Minnesota Power's fixed costs. It will provide Minnesota Power with revenues of approximately $600,000 per year. Minnesota Power has sufficient generating capacity to supply RDO under the contract for its five year term.

The agreement will allow RDO to continue receiving electrical service without moving facilities or installing additional electrical distribution equipment. This fact is consistent with the regulatory goal of avoiding unnecessary duplication of facilities.

The competitive rate statute requires that the Commission determine the effect of the competitive rate on other customers in light of its environmental and socioeconomic impact. The Company argued that a direct comparison of environmental impacts from Minnesota Power's generation and that of the customer's alternative supplier, United Power Association[1], was not necessary because the utilities have similar lignite coal-fired generating mixes. Minnesota Power did include the externality values applied by the Department in the Company's last competitive rate filing in order to prove that revenues under the competitive rate would exceed incremental costs, after consideration of external costs.

While the Department did not agree that the similarity of the utilities means that environmental effects would be identical, the Department did recommend that the Commission adopt the Company's quantified analysis of Minnesota Power's competitive rate using environmental externalities.

In another competitive rate proceeding involving Minnesota Power[2], the Commission found that it could consider a competitive rate in the public interest if the rate is otherwise favorable and the Commission finds no clear evidence of adverse environmental impact.

> Because Minnesota Power has sufficient capacity, the Company would be presumed to either raise rates for other ratepayers or to find another customer if Boise's load were lost to the system. If the Company sold Boise's load to another customer, it is possible that total emissions would actually increase if the emissions from the new customer's source of energy were considered in addition to those of Boise's alternative generation. If the Company's sale of energy to another customer were presumed to displace other generation, the environmental impact of that displacement would be unknown and therefore unmeasurable. In this set of circumstances, where there is no deferral of additional capacity and no measurable generation displacement, the Commission finds no clear evidence of adverse environmental impact.

The Commission applies the same reasoning in this case to find that Minnesota Power's

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[1] United Power Association (UPA) is Itasca-Mantrap's wholesale energy supplier.

[2] In the Matter of the Petition of Minnesota Power for Approval of an Amendment to Electric Service Agreement and a Competitive Rate for Boise Cascade Corporation, Docket No. E-015/M-93-1298, ORDER APPROVING PETITION (March 18, 1994), at p. 6.

proposed competitive rate withstands consideration of its environmental impact.

No party raised any concerns regarding adverse socioeconomic impact of the proposed competitive rate.

For all the reasons cited, the Commission finds that it is in the best interests of Minnesota Power's customers for the Company to offer the proposed competitive rate to RDO.

C. Conclusion

The Commission approves Minnesota Power's five-year electric service agreement with RDO, including the proposed competitive rate.

ORDER

1. The Commission approves Minnesota Power's April 14, 1995, petition for approval of a five-year electric service agreement with Lamb-Weston/RDO Frozen, including a proposed competitive rate.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)